

**Highlights of Property Tax Reform Proposal**  
**from the**  
**Iowa League of Cities and**  
**Iowa State Association of Counties**

The Iowa League of Cities (League) and Iowa State Association of Counties (ISAC) have introduced a proposal for comprehensive property tax reform that addresses many of the problems with the existing system. The proposal will bring the property tax system into the 21<sup>st</sup> century, making it more simple and predictable, enabling local governments to provide important services and providing assurance to property taxpayers that they will understand and have a say in the property taxes levied by their city and county. The changes would be effective as of July 1, 2007 which is Fiscal Year 2008.

**The entire document should be reviewed for a determination of the full impact of the proposal.** However, many of the highlights of the proposal are outlined below and include:

**CHANGES TO ROLLBACK AND PROPERTY TAX CREDITS**

- The rollback formula is eliminated, which will prevent the further shift of tax burden onto commercial properties.
- The state is relieved from funding the homestead credit, and instead a 50% homestead exemption is applied against residences that would have received the homestead credit under the current system. The value of the exemption will range from \$10,000 to \$150,000. In other words, owners of homes valued up to \$10,000 will pay no property tax; owners of homes worth over \$300,000 will receive a flat exemption of \$150,000. The exemption provides a benefit to homeowners similar to the rollback, but removes local governments from uncertainty of state funding decisions and relieves the state of a budget line item of over \$120 million if fully funded (the state funded just \$102 million for FY05).
- Other property tax credits are administered directly by the state, removing local governments completely from the uncertainty of state funding decisions regarding the credits. The military credit reverts to a refundable income tax credit, making it available to all veterans whether they own property or not. The elderly and disabled credit becomes a direct payment from the state to the taxpayer, to be sent by September 1<sup>st</sup> each year in advance of the property owner's first property tax payment which is due September 30<sup>th</sup>. The agricultural land credit is eliminated, with funding transferred to increase the family farm credit – which also becomes a direct payment from the state to the taxpayer either in the form of a property tax reimbursement or a refundable income tax credit.

**NEW PROPERTY TAX REVENUE LIMITATION**

- Current levy rate limits for the city general fund (the “\$8.10 levy”) and county general basic and rural basic funds (\$3.50 and \$3.95 respectively) are removed. Instead, a new property tax revenue limitation based on an inflationary limit is

imposed. The index is the “State and Local Government Price Index for Gross Domestic Product” (GPI) from the U.S. Department of Commerce Bureau of Economic Analysis. In addition to the inflationary limit, all net new valuation resulting from new construction, property improvements, annexation or other boundary adjustments, expiration of tax abatements, and release of TIF increment will increase the property tax revenue limit. Cities and counties will be allowed to carry forward unused levy capacity, which encourages local governments to be conservative with their levies without fear of being penalized with unexpected future restrictions by choosing to tax less than their maximum amounts.

- Current levies that are NOT restricted by the current system remain unrestricted under the new proposal, including the Trust and Agency levy (for employee-related costs including benefits), Debt Service levy and Tort Liability levy for cities, or the supplemental levy for counties. These levies remain restricted by use. Local governments do not control increases impacting them, such as rising insurance premiums or lawsuits, so an inflationary limitation would not work.
- There is no longer an “emergency levy.” In its place, cities and counties have the ability to exceed the revenue limitation by up to 3% in any given year. If they want to exceed the limitation by more than 3%, that extra percentage is subject to reverse referendum if 10% of the registered voters in a city or county sign a petition requesting a public vote. Cities and counties must inform their citizens by resolution or on the ballot whether they plan to exceed the limitation on a temporary or permanent basis. For example, they might exceed the limitation on a temporary basis to fund a specific project that will sunset within a defined period of time. They might need to exceed it on a permanent basis to add a new service, such as moving from a volunteer fire department to a full-time professional fire department.
- Communities have a choice of the base year for purposes of calculating the limitation. The base limitation amount shall reflect actual taxes certified OR potential tax capacity in the fiscal year beginning either July 1, 2005 or July 1, 2006 as chosen by each city and county. Those cities and counties not levying at their maximum authority (i.e. the \$8.10 limit for cities, or the \$3.50 and \$3.95 limits for counties) will retain that authority for future use. The base limitation shall be adjusted by inflation and net new valuation to arrive at the limitation amount for the fiscal year beginning July 1, 2007.

#### PROPERTY TAX CHANGES AMONG CLASSIFICATIONS

- The property tax burden is distributed among properties to more closely match services received, with a goal of reducing the tax burden on commercial properties. This does NOT result in a revenue windfall to local governments because of the restriction from the property tax limitation. Also, the method of collection from manufactured homes is changed to reduce delinquency issues. Changes include:
  1. AG PROPERTY: Ag buildings will be assessed at market values like all other improvements, in addition to the valuation determined for ag land by the

productivity formula. Assessors will be required to consider “good faith” use of agricultural property to differentiate between ag property and development property. The productivity formula will be based on a ten-year rolling average instead of the current five-year rolling average, which will not have a significant effect on long-term valuation or taxes due but will provide greater stability to the tax base by preventing drastic fluctuations in any one year. That type of fluctuation just occurred in FY05, when the average decline in ag values statewide was 19%.

2. EXEMPT PROPERTY: Although all government property remains non-taxable under the proposal, non-government property that qualifies as exempt (i.e. religious institutions, charitable organizations, hospitals, private colleges) would have the land value (not the buildings or other improvements) taxable to cities and counties but not to schools. Because the average value of the land is 20% of the overall value, and because the land would not be taxable to schools, the overall impact is kept to a minimum. However, cities and counties may opt out of taxing the land for all exempt properties. If they opt out, they have the option of imposing a public safety fee by ordinance which must be reasonable related to the entity’s public safety costs and cannot exceed the tax that would have otherwise been paid. The forest and fruit tree reserve exemptions would be allowed a maximum of \$1,000 of value per acre, which would remain of benefit to rural lands but limit the abuse of this exemption in urban areas where the requisite number of trees are planted but the property does not truly function as a fruit or forest reserve.

3. RESIDENTIAL PROPERTIES: All residential properties that are not owner-occupied become taxable at 100% of market value due to the elimination of the rollback formula. This affects investment properties, second homes and apartment buildings that qualified as “condos” and therefore eligible for the rollback under a quirk in existing law. Also, residential properties valued at over \$300,000 are taxable at 100% of market value for the portion that exceeds \$300,000 in value.

4. MANUFACTURED HOUSING: The square foot tax currently charged to manufactured homeowners is replaced with an occupied lot surcharge imposed against the landowner of a manufactured housing community. The landowner can collect this cost from the homeowner in the form of lot rent. This helps to solve the high delinquency rates on payment of this tax which can exceed 20%. Land in a manufactured housing community will continue to be assessed and taxed at full market value. Manufactured homes outside of manufactured housing communities will continue to be taxed as residential real estate, with the tax imposed on the property owner and the value of the home added to the total value of the parcel on which it is located. Owner-occupied manufactured homes are eligible for the new homeowner exemption.

### GENERAL IMPROVEMENTS PROVIDING CLARITY

- Budget hearing notice forms are standardized and provide clarity to taxpayers of tax decisions by cities and counties including a listing of reasons for changes from the previous year.
- Cities and counties will pass a resolution to establish a target maximum ending fund balance for undesignated/unreserved funds in the general fund for cities and the general basic and rural basic funds for counties. This addresses the call from some organization to set a statewide limit on ending fund balances, and instead allows each city and county to set the limit appropriate for their area.
- Only issues raised in a budget protest petition may be discussed at a budget appeal hearing.
- Local governments will not have to comply with new state mandates if the state does not provide sufficient funding or levy authority.
- Equalization orders will apply prospectively, not retroactively, providing clarity to taxpayers of whether the state or local governments are affecting their tax bill and allowing assessors to apply the equalization to problem properties instead of spreading the impact among properties.

### CHANGES TO ASSESSMENT PROCEDURES

- Counties will be enabled to jointly employ assessors.
- Local assessors will conduct onsite inspections of every property in their jurisdictions at least once every ten years.
- The deadline for mailing assessment rolls will be moved up from April 15<sup>th</sup> to April 1<sup>st</sup>. Assessors will conduct informal reviews of protested properties during the month of April. Appeals may be filed with the board of review between May 1<sup>st</sup> and May 15<sup>th</sup>, with hearings held from May 16<sup>th</sup> to June 30<sup>th</sup> unless the Iowa Department of Revenue grants an extension to August 1<sup>st</sup>.
- The Iowa Department of Revenue will develop procedures to establish standardization among assessors' offices, including definitions of agricultural land used for either rural residential property or held for development and assessment of farm buildings at uniform levels of cost.
- Cable television property and cellular towers will be centrally assessed by the Iowa Department of Revenue.
- Platted lands will receive a maximum assessment freeze of six years as opposed to the current three-year limit. After six years, the assessment freeze expires and the classification reflects the intended use of the land.